

DEC 8 1986

24-G-2

A93.41: 64



United States
Department
of Agriculture

Economic
Research
Service

Rural Development
Research Report
Number 64

November 1986

How Well Can Alternative Policies Reduce Rural Substandard Housing?

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COMPLETED

ORIGINAL

Over 2 million of the Nation's 5.1 million substandard housing units were located in rural areas in 1981, with over half of them in the South. This report examines where substandard housing is concentrated and compares two approaches to reduce substandard housing in rural areas: building new housing or subsidizing existing housing. Programs to subsidize existing housing would reduce rural substandard housing more per dollar spent than would programs to construct new housing. A combined program that targets money toward housing construction in low-vacancy areas and toward subsidies of existing housing in high-vacancy areas would be the most cost-effective of the programs considered to reduce rural substandard conditions.

Substandard housing has been more concentrated and more severe in rural areas than in the Nation as a whole. Since 1970, at least a third of the Nation's substandard housing has been in rural areas, although rural areas have only a quarter of total occupied housing. Substandard housing units in rural areas also generally have greater and more severe structural defects than do those in urban areas. In 1979, maintenance problems were the major reason for classifying urban dwellings as physically unsound, while plumbing problems were the most likely cause for rural dwellings. Rural areas fare even worse if one considers only lack of complete plumbing. Since 1950, over half of occupied units lacking complete plumbing were in rural areas, although rural areas never contained more than a third of total occupied housing. Units with more than one flaw were also much more common in rural areas (44 percent compared with 26 percent in urban areas)(13).

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Italicized numbers in parentheses refer to literature cited in the References section.

"Substandard"?

For this report, housing is substandard if it has more people than rooms or if it lacks complete plumbing (hot and cold piped water, a flush toilet, and a bathtub or shower) for the exclusive use of the occupying household. Under this definition, 5.2 percent of all occupied units (rural and urban) were classified substandard in 1983.

More comprehensive definitions of substandard or inadequate are sometimes used. By a measure of housing inadequacy used at the U.S. Department of Housing and Urban Development, 6.1 percent of all housing in 1983 was "seriously inadequate," or possessed a major defect in plumbing, heating, electricity, or maintenance. A stricter measure developed by the Office of Management and Budget classified 15.3 percent of all units as inadequate in 1983. By this criterion, a unit is inadequate if it contains one or more of seven major housing defects (including plumbing, heating, kitchen, and sewage defects) or two or more of eight maintenance problems (including leaking roof and exposed wiring). Both of these measures classify a higher proportion of the Nation's housing as substandard than does the definition used in this report.

Rural Substandard Housing is Concentrated in the South

Texas leads all States, with nearly 143,000 rural occupied substandard units (7.1 percent of the national total), followed by North Carolina with 121,000 (6 percent) and Kentucky with 103,000 (5.1 percent)—but these States have very high rural populations. Texas, North Carolina, and Kentucky rank as numbers 2, 3, and 15, respectively, in the number of rural households (table 1, column 3). The percentage of rural households in substandard housing (table 1, column 5) measures the concentration, not

Table 1—Rural occupied substandard units and rural households, ranked by State

Rank and State	Rural occupied substandard housing units		Rural households		Percentage of rural households living in substandard units
	Total	Share of U.S. total	Total	Share of U.S. total	
	Number	Percent	Number	Percent	
U.S. total	2,023,166	100.0	27,171,066	100.0	7.4
1 Texas	142,952	7.1	1,464,421	5.4	9.8
2 North Carolina	121,257	6.0	1,263,581	4.7	9.6
3 Kentucky	102,792	5.1	744,041	2.7	13.8
4 Georgia	96,999	4.8	906,196	3.3	10.7
5 Virginia	91,063	4.5	732,685	2.7	12.4
6 California	83,598	4.1	1,054,062	3.9	7.9
7 Tennessee	80,488	4.0	790,810	2.9	10.2
8 Mississippi	78,574	3.9	542,537	2.0	14.5
9 Alabama	78,122	3.9	692,245	2.5	11.3
10 Ohio	71,385	3.5	1,257,741	4.6	5.7
11 Pennsylvania	70,175	3.5	1,551,921	5.7	4.5
12 South Carolina	69,168	3.4	609,385	2.2	11.4
13 Louisiana	67,103	3.3	614,059	2.3	10.9
14 Arkansas	54,838	2.7	545,797	2.0	10.0
15 West Virginia	53,476	2.6	493,351	1.8	10.8
16 Michigan	52,155	2.6	1,098,355	4.0	4.7
17 Florida	51,608	2.6	772,988	2.8	6.7
18 Missouri	50,924	2.5	769,541	2.8	6.6
19 Indiana	43,633	2.2	876,258	3.2	5.0
20 Illinois	43,180	2.1	1,902,984	3.7	4.3
21 New York	40,385	2.0	1,155,774	4.3	3.5
22 Wisconsin	37,638	1.9	754,582	2.8	5.0
23 Arizona	36,948	1.8	230,809	.8	16.0
24 Oklahoma	36,309	1.8	519,308	1.9	7.0
25 Minnesota	35,288	1.7	642,197	2.4	5.5
26 New Mexico	30,984	1.5	189,880	.7	16.3
27 Washington	28,008	1.4	519,630	1.9	5.4
28 Maryland	23,755	1.2	327,966	1.2	7.2
29 Maine	22,678	1.1	297,275	1.1	7.6
30 Oregon	22,570	1.1	457,584	1.7	4.9
31 Iowa	22,086	1.1	609,733	2.2	3.6
32 Alaska	17,984	.9	63,393	.2	28.4
33 Kansas	16,388	.8	467,423	1.7	3.5
34 Colorado	15,170	.7	278,178	1.0	5.5
35 Hawaii	13,137	.6	73,745	.3	17.8
36 Idaho	13,072	.6	204,249	.8	6.4
37 South Dakota	11,378	.6	182,039	.7	6.3
38 Montana	10,944	.5	175,363	.6	6.2
39 Massachusetts	10,348	.5	436,892	1.6	2.4
40 Nebraska	9,793	.5	293,695	1.1	3.3
41 Utah	9,423	.5	109,020	.4	8.6
42 New Hampshire	8,969	.4	201,668	.7	4.4
43 New Jersey	8,246	.4	336,998	1.2	2.4
44 North Dakota	8,105	.4	151,386	.6	5.4
45 Vermont	7,488	.4	152,689	.6	4.9
46 Wyoming	6,476	.3	114,590	.4	5.7
47 Connecticut	5,579	.3	255,265	.9	2.2
48 Delaware	4,796	.2	70,179	.3	6.8
49 Nevada	4,099	.2	63,875	.2	6.4
50 Rhode Island	1,672	.1	52,123	.2	3.2

the absolute number, of substandard units, and thus does not depend on the size of the rural population. Texas, North Carolina, and Kentucky, which rank highest in the number of rural substandard units, rank as numbers 15, 16, and 6, respectively, in the proportion of rural households in substandard units. Rhode Island, Nevada, and Delaware, which had the least substandard units, rank as numbers 47, 25, and 22, respectively, in the proportion of rural households living in substandard units.

States with the highest concentration of occupied rural substandard units are Alaska (28.4 percent), Hawaii (17.8 percent), New Mexico (16.3 percent), Arizona (16 percent), and Mississippi (14.5 percent). Figure 1 displays the concentration of rural substandard housing in contiguous U.S. counties. Rural substandard housing is heavily concentrated in the Southeast coastal region, southern Texas, Kentucky, West Virginia, Virginia, and parts of New Mexico, Arizona, and South Dakota. Large pockets of these areas are occupied by blacks (in the Southeast), Hispanics (in southern Texas and parts of New Mexico and Arizona), American Indians (in South Dakota and parts of New Mexico and Arizona), and

whites (in the Appalachian regions of Kentucky, West Virginia, and parts of Virginia).

The South has 57 percent of the Nation's occupied rural substandard units but only 41 percent of rural households (table 2). More than 10 percent of rural southern households live in substandard units. The South Atlantic region has the largest share of the Nation's rural substandard units (25.3 percent) of the nine census regions (fig. 2). However, the East South Central region has the highest concentration (over 12 percent) of rural substandard housing.

Population and Area Factors Affect Housing Quality

What influences the amount of substandard housing in rural parts of U.S. counties?

- **The proportion of rural households in poverty—** The greater the proportion of poverty households, the greater the expected proportion of substandard housing (table 3, row 1, shows a positive coefficient for this variable). Many low-income households can afford only low-quality housing.

Figure 1

Rural Substandard Housing in U.S. Counties

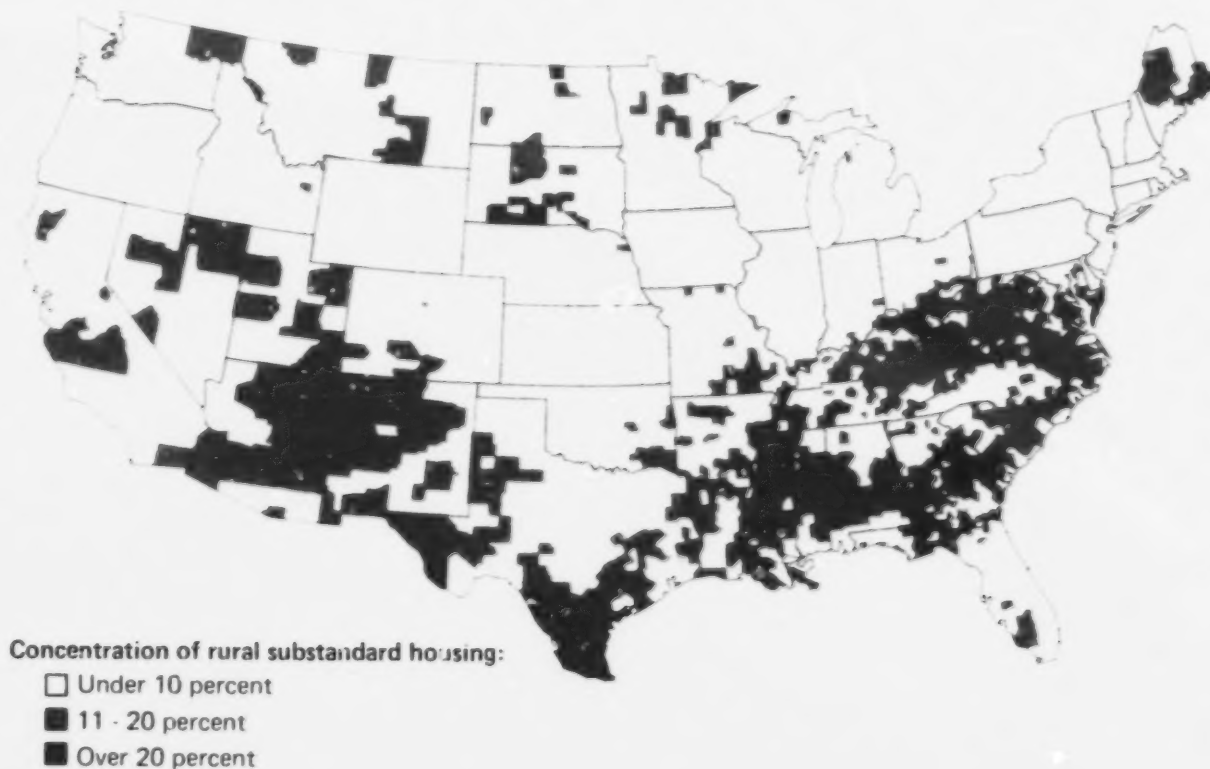
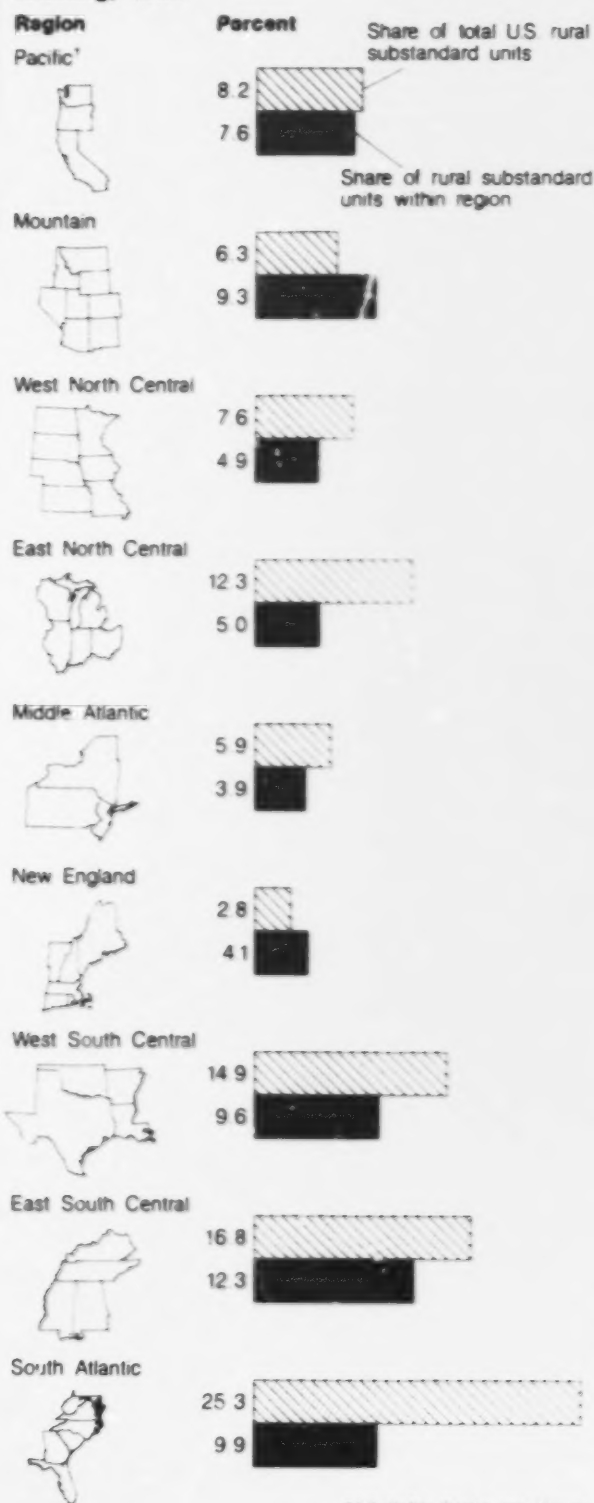


Figure 2
Regional shares of rural substandard housing, 1980



The Data

The Economic Research Service (ERS), U.S. Department of Agriculture, used 1980 census data to derive over 40 variables that profile the rural population at the county, State, and national levels for the Farmers Home Administration (FmHA) in 1983. FmHA uses ERS data when making program decisions, such as when allocating funds for housing loans to the States for the Section 502 and 515 programs of the National Housing Act of 1976. The information in the census that is classified by rural/urban status is limited to general summary statistics and basic housing characteristics. FmHA needed more specific rural data, such as the number of rural occupied substandard units, rural population 62 years old and older, and rural families with incomes below the poverty level. The census definition of rural as open country and places with less than 2,500 people was too restrictive for FmHA use. For FmHA rural housing programs, a rural area includes open country and towns or places with 10,000 or fewer people and that are not part of or closely associated with urban areas. Under certain conditions, a place in a nonmetropolitan (nonmetro) county may be considered rural even if it contains up to 20,000 people.

The data in Summary Tape File 3C (STF3C) of the 1980 census summarizes several hundred population and housing variables for urbanized areas within States, counties, and places with 10,000 or more people. I transformed each variable into a rural variable, which is the value of the variable minus its urban portion, where the urban portion consists of urbanized areas plus places of 10,000 or more people (20,000 or more for nonmetro counties)(4).

The U.S. total of approximately 2.02 million rural occupied substandard units is 21 percent larger than the census measure of 1.67 million (table 1). This difference is expected since the rural definition used in this report is broader than the census definition.

Table 2—Rural occupied substandard units and rural households, by region

Region ¹	Rural occupied substandard housing units		Rural households		Percentage of rural households living in substandard units
	Total	Share of U.S. total	Total	Share of U.S. total	
	Number	Percent	Number	Percent	
U.S. total	2,023,166	100.0	27,171,066	100.0	7.4
West	292,413	14.5	3,534,378	13.0	8.3
North Central	401,953	19.9	8,105,934	29.8	5.0
Northeast	175,500	8.7	4,440,605	16.3	4.0
South	1,153,300	57.0	11,090,149	40.8	10.4

¹Regions are:

West = Pacific and Mountain regions.

North Central = West North Central and East North Central regions.

Northeast = Middle Atlantic and New England regions.

South = West South Central, East South Central, and South Atlantic regions.

Source: Tabulations by Economic Research Service from 1980 census.

• **The proportion of nonwhite rural households—**

The greater the proportion of rural nonwhite households, the greater the expected proportion of rural substandard housing (table 3, row 2). Studies of discrimination in housing show that nonwhites face higher housing prices than do whites. For example, blacks pay about 15 percent more than whites pay for comparable housing within any given neighborhood (15). Therefore, nonwhites may purchase slightly lower quality housing than would whites with equal incomes.

- **The percentage of the rural aged—**The higher the percentage of the rural population 62 years old and older, the lower the percentage of substandard housing (table 3, row 3, shows a negative coefficient). Many elderly already own their homes and may be more likely to live in better housing than would other households.

- **The rural vacancy rate—**The lower a county's unoccupied units as a proportion of available units, the greater the tendency for residents to occupy lower quality housing (table 3, row 4). With less housing on the market, people have less of a selection of units.

• **The population growth rate from 1970 to 1980—**

The greater the population growth rate, the greater the percentage of people living in substandard housing (table 3, row 5). Housing supply may not respond quickly enough to rapid population growth, leading to greater use of a county's lower quality housing.

- **The average household size—**Areas with larger rural households may have a greater proportion of crowded rural units, thus a higher rate of rural substandard housing (table 3, row 6).

Build More Units or Subsidize Existing Housing?

Many analysts (including the President's Commission on Housing) argue that programs to subsidize existing housing (called demand-side programs) are more sensible than the traditional construction-oriented programs (14). This position may be more valid in urban than in rural areas. Most programs that subsidize existing housing do not serve owner-occupants or the lowest income-eligible households, two groups especially concentrated in rural areas. Also, construction and operating costs per unit of public housing are significantly lower in rural areas than in urban areas (3).

How effectively would these alternative policies reduce substandard housing in rural areas? This report estimates the reduction in substandard units from increased spending on a program that subsidizes existing housing, a program to construct new housing, and one that combines both features.

Subsidize Existing Housing

Suppose that current annual subsidies of existing housing programs such as the Department of Housing and Urban Development's rent subsidy program, the Section 8 existing housing program, were ex-

panded by 10 percent, about a \$150-million yearly increase in current programs. Such an increase would allow an additional 97,000 households (based on current average annual subsidies) to participate in the program. By doing so, the program raises about 26,000 of these additional participants out of poverty, based on an estimate that 27 percent of Section 8 existing housing program participants are raised out of poverty by the program (6). This constitutes a 0.1-percentage-point reduction in the rural poor, from 8.9 percent to 8.8 percent.

Because of the decrease in poverty, the number of rural households living in substandard units would decrease by 0.07 percentage point, from 7.81 to 7.74 percent—an 18,000-unit reduction in rural occupied substandard housing. Also, about 4,000 of the 71,000 participating households remaining poor would move out of substandard housing after the subsidy (see box outlining the demand-side simulation). Thus, the number of rural substandard units would decline by 22,000 units if funding to existing housing were increased \$150 million.

Construct New Housing

About 83,000 new units would be built if annual subsidies for construction-oriented programs in rural areas rose by \$150 million.⁴ The influx of new units would initially increase the rural vacancy rate by 0.3 percentage point, from 3.5 to 3.8 percent. The number of substandard units would then fall by 0.05 percentage point, from 7.81 to 7.76 percent—a 12,000-unit reduction in rural substandard housing (see box on Using the Regression Findings in the Simulations).

Combine Both Programs

If funding were instead increased by \$75 million for both types of programs, targeting increases to localities where each program may be most effective, rural substandard housing would be reduced by 31,000 units (see box on Using the Regression Findings in the Simulations). Increased new construction would be targeted to low-vacancy areas, which may need to expand the housing stock. Increased sub-

⁴This assumes a \$1,800 annual average subsidy per participating household in 1980, a figure obtained using the formula (gross rent plus other costs, minus tenant payments) in the box outlining the demand-side simulation. The estimate of annual gross rent (\$2,664) comes from (1). Annual other costs (\$660) and annual tenant payments (\$1,524) are based on 1979 monthly cost data on the Section 8 new construction program (13) updated to 1980 dollars.

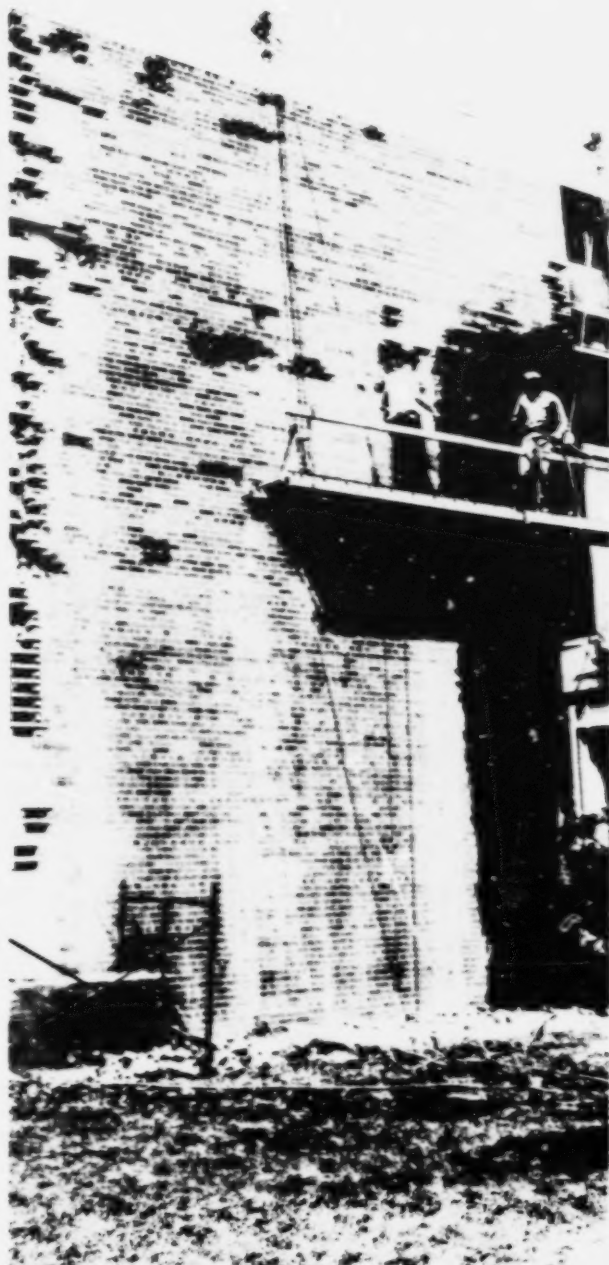
How the Demand-Side Simulation Works

The current average annual subsidy per participating household in the Section 8 existing housing program is \$1,548. This figure is estimated from gross rent plus other costs, minus tenant payments. The 1980 annual gross rent (\$2,712) came from a study of the Section 8 existing housing program in rural areas (1). Annual other costs (\$360) and annual tenant payments (\$1,524) were derived from 1979 monthly cost data on the Section 8 existing housing program (14) and were updated to 1980 using an average ratio of 1980 to 1979 price levels for mortgage rates, fuel and utilities, maintenance and repair, and construction. All simulation findings were rounded to the nearest thousand.

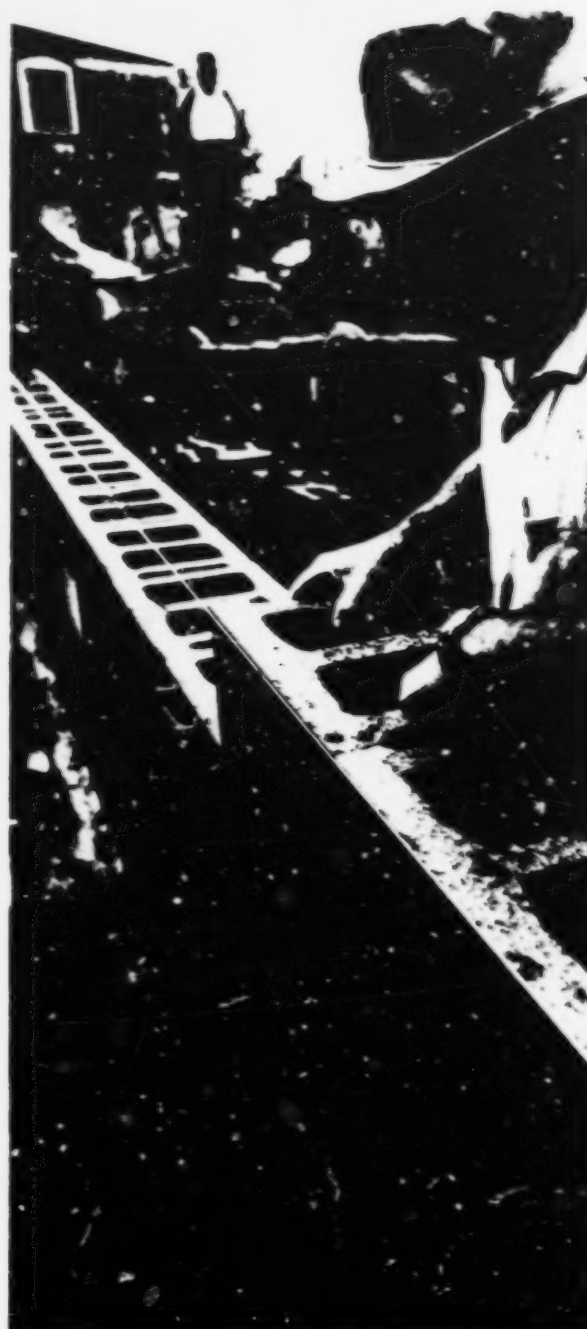
Dividing the number of rural substandard units (2.15 million) by the number of rural households (27.5 million) yields the percentage substandard (7.81 percent). The \$1,548 annual subsidy (monthly subsidy of \$129) would increase average monthly housing expenditures by \$28 for participating households, based on Reeder's finding that approximately 22 percent of the average Section 8 subsidy was spent on housing (6). Some participating households remaining poor will move from substandard to standard housing because of this \$28 increase in monthly housing expenditures. Following the subsidy, about 6 percent of the rural poor living in substandard units would spend more on housing than \$290, the mean monthly rent for standard units (12). Therefore, about 4,000 households (about 6 percent) of the 71,000 households in poverty receiving the subsidy would move out of substandard housing into standard units. This estimate is probably conservative because many participating households may find standard units renting for less than the average rent of all standard units.

Combining the features of programs that maintain/improve the existing housing stock with those that construct new units—especially when money is targeted according to the area's vacancy rate—results in the largest reduction in rural substandard housing for the money spent (table 5).

Under the combined approach, money is targeted so that:



Existing housing is maintained in areas with high vacancy rates, and



New housing is constructed in areas with low vacancy rates.

sidies for existing housing would be targeted to areas with high vacancy rates.

Adding \$75 million in subsidies to existing housing in high-vacancy areas would reduce rural substandard housing by 11,000 units. The 0.05-percentage-point drop in the percentage poor produces most of this reduction (9,000 units), and the remainder (2,000 units) is produced by the effect of additional subsidy dollars on households remaining in poverty.¹

¹Identical figures as in the demand-side simulation were used for the average annual subsidy, the proportion raised out of poverty, the proportion of the subsidy spent on housing, and the proportion of rural poverty households who would move out of substandard housing after the subsidy.

An additional \$75 million in funding toward new housing construction programs would increase the rural vacancy rate by 0.14 percentage point and eventually reduce the number of rural substandard units by 20,000. There is a much larger per-dollar reduction in substandard housing under this combined program than was found in the other simulations where funds were not targeted (see box on Using Regression Findings in the Simulations).

Of the three programs, the combined approach is the most cost-effective. For a \$150-million expenditure, the combined program would reduce substandard housing in rural areas by 31,000 units. This

Using the Regression Findings in the Simulations

Subsidizing existing or new housing can cause people to move out of substandard conditions into housing that is at least standard. I used the regression findings to estimate the reduction in substandard units from increased spending on a program that subsidizes existing housing, a construction-oriented program, and a program that combines both features.

To simulate which program produces the largest reduction, I analyzed what happens to the percentage of rural substandard housing (the dependent variable) when the factors related to substandard housing (the independent variables) change (table 3). In particular, increased subsidies to existing housing can increase incomes of participating households, reducing the percentage of rural households in poverty. Increased funding of new construction can increase the rural vacancy rate by increasing the housing stock.

- **In the existing housing simulation** (regression 1), the 0.1-percentage-point decrease in the proportion of poor households is multiplied by the regression 1 coefficient for percentage in poverty of 0.69, yielding a 0.07-percentage-point decrease in the proportion of rural households living in substandard units. The number of rural substandard units would ultimately decline by 22,000 units if funding of existing housing programs were increased \$150 million.
- **In the new construction simulation** (regression 1), the 0.3-percentage-point increase in the vacancy rate is applied to the regression 1 coefficient for vacancy rate of -0.16, reducing the proportion of rural households living in substandard units by 0.05 percent-

Table 3—Regression 1: Factors affecting rural substandard housing

Dependent variable: Percentage of rural substandard housing		
Independent variable	Coefficient	t-value ¹
Percentage of rural households in poverty	0.69	40.9
Percentage of nonwhite rural households	.13	22.5
Percentage of elderly rural households	-.11	-5.7
Rural vacancy rate	-.16	-3.8
Total 1970-80 population growth rate	.03	9.2
Rural household size	.03	9.1
Constant	-.07	-5.6

Number of observations = 3,006.

¹R² = 0.67.

age point. The number of rural substandard units would ultimately decline by 12,000 units if funding toward new construction programs were increased \$150 million.

- **Under the combined program simulation**, regression 1 should be revised to include how low- or high-vacancy rates affect the percentage of substandard housing, both directly and through the poverty and vacancy rate variables. Regression 2 includes those effects on the percentage of rural substandard units (table 4):
- * The 0.05-percentage-point reduction in the percentage in poverty is multiplied by the regression 2 coefficient for the percentage in poverty in high-vacancy areas

compares with reductions of 22,000 and 12,000 units generated by the simulations subsidizing existing housing and new construction, respectively (table 5).

Table 5—Simulation results

Housing program	Reduction in rural substandard units
	Number
Subsidize existing housing ¹	22,000
Construct new housing ¹	12,000
Combine both programs ²	31,000

¹\$150-million increase in funding.

²\$150-million increase, split into \$75 million on demand-side and \$75 million on construction-oriented programs.

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Table 4—Regression 2: Effect of poverty and vacancy rate in low- versus high-vacancy rate counties

Dependent variable: Percentage of rural substandard housing		
Independent variable	Coefficient	t-value ¹
Percentage of rural households in poverty	0.86	25.4
Percentage in poverty times low-vacancy rate dummy variable	.05	1.9
Rural vacancy rate	.01	.2
Low rural vacancy rate dummy variable ²	.02	2.6
Vacancy rate times low-vacancy rate dummy variable	-.53	-3.5
Percentage of nonwhite rural households	.13	22.4
Percentage of elderly rural households	-.11	-3.4
Growth rate in total population, 1970-80	.03	8.8
Rural household size	.03	2.1
Constant	-.08	-0.0

Number of observations = 3,088.

¹R² = 0.87.

²Low-vacancy rate dummy variable

= 1 if vacancy rate ≤ 0.037,

= 0 otherwise,

where 0.037 is the mean rural vacancy rate.

of 0.86, reducing the percentage living in substandard housing by 0.03 percentage point—a decrease of 9,000 substandard units. When combined with the 2,000 poor households estimated to move out of substandard housing after receiving the subsidy, substandard housing is reduced 11,000 units.

* The 0.14-percentage-point increase in vacancy rate is multiplied by the regression 2 coefficient for vacancy rate in low-vacancy areas of -0.52, reducing the percentage living in substandard housing by 0.07 percentage point—20,000 fewer units. Therefore, \$150 million in funding, split into \$75 million spent to maintain existing housing and \$75 million spent on constructing new housing, reduces rural substandard housing by 31,000 units. This effect is larger than that of the new construction simulation because increased vacancy rates have a much stronger effect on the percentage of substandard housing in low-vacancy areas (where the coefficient for regression 2 = -0.52) than in all areas as in the new construction simulation (where the coefficient for regression 1 = -0.16).

A word of caution, however. These one-equation models do not completely describe the relationships between the variables: several of the independent variables may be related to each other, and the dependent variable may affect some of the independent variables. These factors may bias some of the estimated coefficients. Also, the poverty and vacancy rate variables are imperfect indicators of housing policy actions. For example, a vacancy rate variable may not appropriately simulate increases in a housing program because the characteristics of vacant units may be different after newly constructed, still vacant, public housing units are introduced. Nevertheless, the simulations provide insights on how alternative government housing programs can affect housing quality.

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Will Employment Growth Benefit All Households? A Case Study in Nine Nonmetro Kentucky Counties, by Donald K. Larson and Claudia K. White.
SN: 001-019-00425-8.

Overall economic growth in a rural area will probably not benefit all households or residents in that area. In a nine-county area of south central Kentucky, rapid employment growth between 1974 and 1979 did create new job opportunities. However, only 18 percent of the households had members who took advantage of the new jobs. The employment growth also did not reduce the area's overall poverty level. About as many households fell into poverty as left the poverty ranks during the study period. Some population groups, such as households headed by women, remained economically disadvantaged despite the area's growth. Other groups, such as the elderly, maintained their income status by relying on public and private income transfer programs.

Distribution of Employment Growth in 10 Georgia Counties: A Case Study, by James D. Schaub and Victor J. Oliveira.
SN: 001-019-00412-6.

Rapid economic growth in a 10-county rural area in south Georgia during 1976-81 favored employment of whites, men, and immigrants. They earned higher average weekly salaries than blacks, women, and long-term residents. This study of growth in a mixed manufacturing- and agricultural-based economy flows from a research project on the impacts of economic expansion in nonmetro economies with different industrial bases. The Georgia area's job growth was greatest in the trades and services sectors. Few businesses used public sector funds to start or expand their operations. Government employed 25 percent of the area's wage and salary workers.

Distribution of Employment Growth in Nine Kentucky Counties: A Case Study, by Stan G. Daberkow, Donald K. Larson, Robert Coltrane, and Thomas A. Carlin.
SN: 001-019-00337-5.

Rapid employment growth between 1974 and 1979 in a nine-county study area of south central Kentucky provided job opportunities both for local residents and for persons with limited labor force experience. But, recent immigrants held a disproportionate share of better paying executive jobs. This case study, which examines the distributional effects of rapid employment growth in a nonmetro area, shows that immigrants also held a disproportionate share of jobs in growing business establishments. Although manufacturing was the major economic force in the study area in January 1980, jobs in the private service sector increased more than in other sectors.

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